Forbes Dawson
THE TAX SPECIALISTS

Wealth structuring for the private client

20 June 2016

Forbes Dawson
THE TAX SPECIALISTS

Agenda

1.30pm	Registration and refreshments	
2.00pm	IHT: an update and recent changes	Laura Hutchinson
2.45pm	Inheritance Tax Planning Opportunities	
	– BPR investment	Stephen Field, Investec
3.15pm	*Coffee Break*	
3.35pm	Tax implications on divorce	Rebecca Bedford/Laura Hutchinson/Robin Charrot
4.05pm	Pensions – where are we now?	Brian Radbone, Transact
4.50pm	Closing remarks and questions from the floor	Michael Dawson
5.00pm	Drinks and discussion	

Forbes Dawson
THE TAX SPECIALISTS

IHT: an update and recent changes

LAURA HUTCHINSON
Partner
T: 0161 927 3853
E: laura@forbesdawson.co.uk

Forbes Dawson
THE TAX SPECIALISTS

Agenda

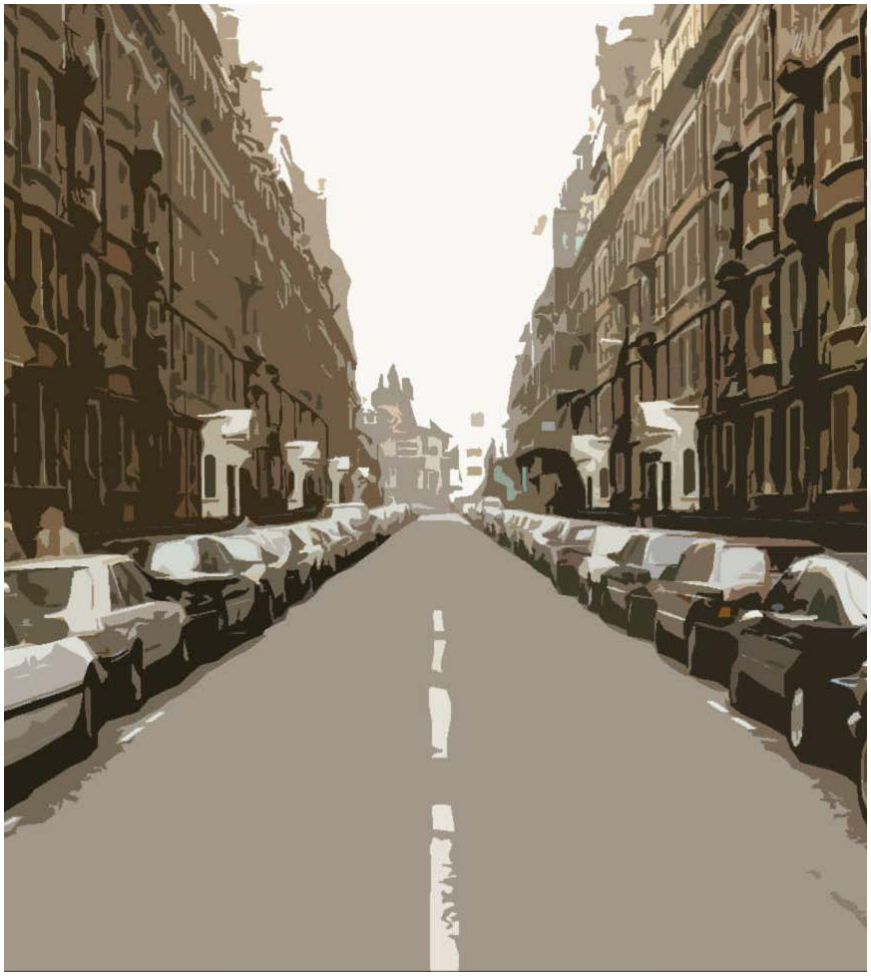
Residence Nil Rate Band

- Overview of the rules
- Tax planning to maximise relief
- Examples

Forbes Dawson
THE TAX SPECIALISTS

Residence Nil Rate Band – an overview

- Unnecessarily complicated
- Worth £140k of tax per couple
- May encourage the purchase of larger homes
- Significant planning required to maximise relief
- Discriminates against people with no children and/or who rent property



Forbes Dawson
THE TAX SPECIALISTS

Residence Nil Rate Band ('RNRB')

- Specific IHT relief to utilise against family home
- Must be passed on death to direct descendants ('closely inherited')
- Deaths after 6 April 2017
- Transferrable to spouse
- Downsizing provisions

Forbes Dawson
THE TAX SPECIALISTS

RNRB amount of relief

- RNRB and NRB are:

Year	RNRB amount £	NRB amount £	Total £
2017/18	100,000	325,000	425,000
2018/19	125,000	325,000	450,000
2019/20	150,000	325,000	475,000
2020/21	175,000	325,000	500,000

- Effect is £1m relief to couple
- Provides tax relief per couple of £400k (£1m x 40%)
- Able to transfer both reliefs independently

Forbes Dawson
THE TAX SPECIALISTS

Simple example

Mr & Mrs Hertfordshire have an estate worth £1m made up as follows:

Assets	Mr Hertfordshire £'000	Mrs Hertfordshire £'000
House	400	400
Investments	100	100
Total	**500**	**500**

What is their inheritance tax liability?

Forbes Dawson
THE TAX SPECIALISTS

Mr & Mrs Hertfordshire IHT

Mr Hertfordshire dies on 30 April 2017. He leaves everything to Mrs Hertfordshire. Mrs Hertfordshire dies in May 2021 and leaves all her assets to the children.

Assets	Mrs Hertfordshire £'000	House £'000	Other £'000	Total reliefs £'000
House	800	800		
Investments	200		200	
Total	**1,000**			
Less RNRB x 2		(350)		350
Less NRB x 2		(450)	(200)	650
Chargeable		**Nil**	**Nil**	**1,000**

Forbes Dawson
THE TAX SPECIALISTS

Effects of RNRB transfer

- Note 2 x £175k RNRB when transferred (despite only £100k relief on 1st death)
- Oddity when transferring - relief available even if didn't own a house!
- Consideration – whether to claim on first death or transfer?
  - For deaths before 6 April 2020, transfer?
  - Careful on transfers as could lose *all* the relief on 2nd death

Forbes Dawson
THE TAX SPECIALISTS

RNRB restrictions to relief

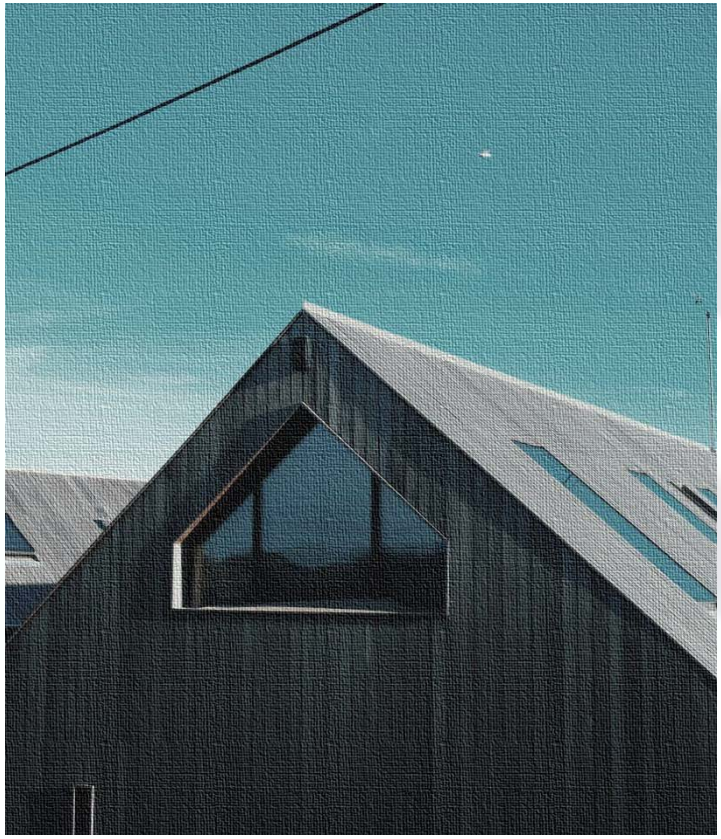
- Estate (assets less liabilities) but before reliefs (BPR/APR/NRB) and spouse exemption must be < £2m
- If > £2m, £1 reduction for every £2 over

Year	Relief withdrawn if estate > than
2017/18	£2.20m
2018/19	£2.25m
2019/20	£2.30m
2020/21 and onwards	£2.35m

Forbes Dawson
THE TAX SPECIALISTS

RNRB what is a residence?

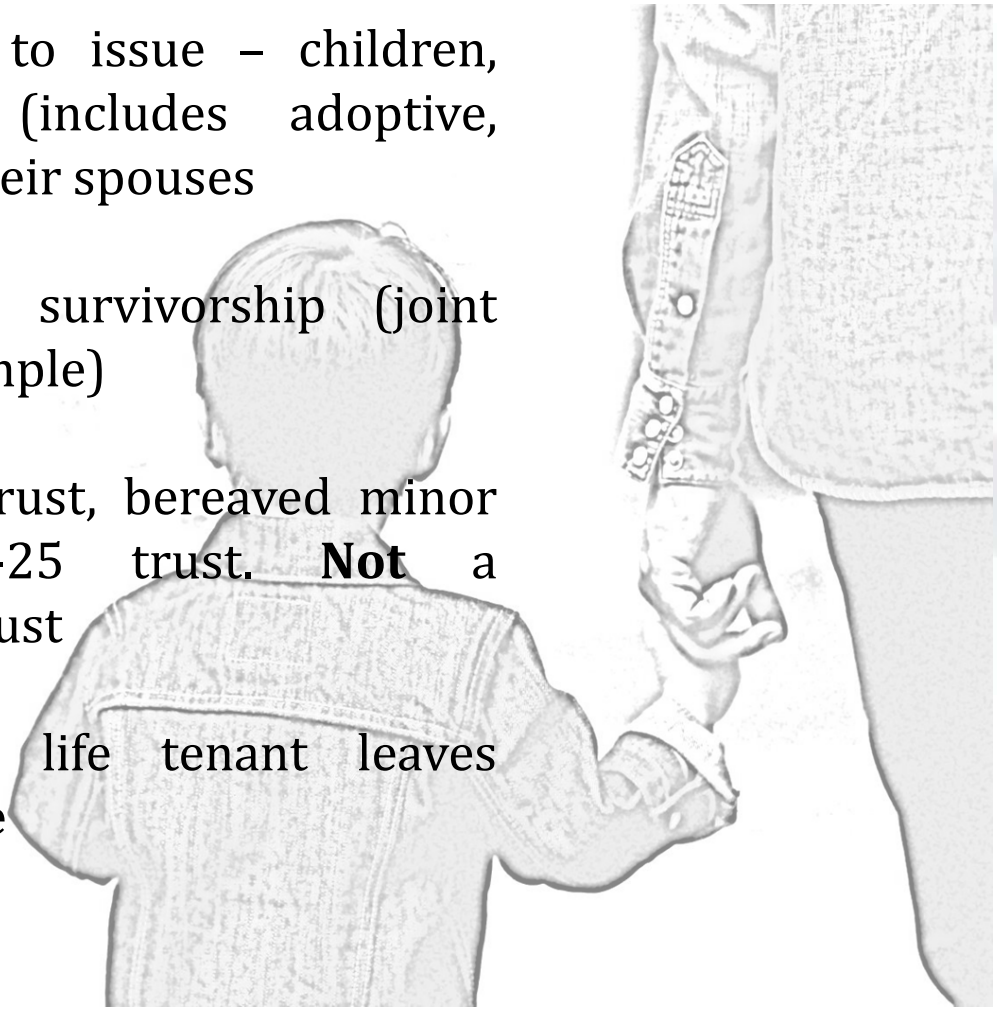
- Has to have been lived in at some point
- Not restricted to main residence
- No limitation on grounds/garden (unlike PPR)
- Doesn't have to be occupied at death
- PR's can nominate



Forbes Dawson
THE TAX SPECIALISTS

RNRB what is closely inherited?

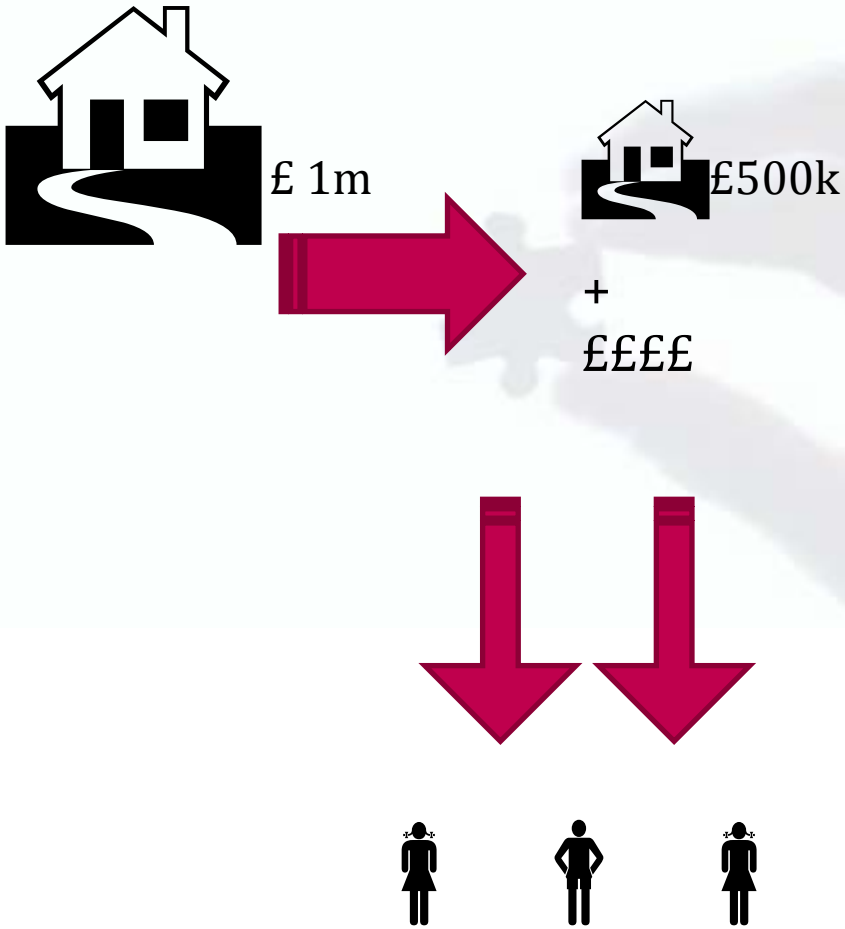
- Left on death to issue – children, grandchildren (includes adoptive, step etc.) and their spouses
- Intestacy, will, survivorship (joint tenants for example)
- Into an IPDI Trust, bereaved minor trust or 18-25 trust. **Not** a discretionary trust
- Existing trust: life tenant leaves outright to issue



Forbes Dawson
THE TAX SPECIALISTS

Downsizing

- Included so don't have to retain large house
- Amount of relief relates to larger house £1m
- Excess proceeds of sale must be left to direct descendants (no tracing)
- Property gifted in lifetime but cash of equivalent value left to direct descendants
- Can cover sale of garden/grounds alone



Forbes Dawson
THE TAX SPECIALISTS

Tax planning to maximise the relief

Forbes Dawson
THE TAX SPECIALISTS

RNRB planning to avoid restrictions

- Value of estate – snapshot at the time
- Lifetime gifts ignored – deathbed planning effective!
- Assets with reservation of benefit included – release before death
- Utilise all relief – buy bigger house before death to use full £350k!
- Ensure mortgages are on correct properties

Forbes Dawson
THE TAX SPECIALISTS

Borrowings

- Consider borrowings and effect on relief
- Restructure to maximise relief
- In example, transfer £150k to property number 2
- Nominate property 1
- Note interaction if property 2 is let

Property 1		Property 2	
Value	£500k	Value	£350k
Mortgage	(£300k)	Mortgage	(£150k)
Net value	£200k	Net value	£200k
Mortgage	£150k	Mortgage	(£150k)
Net value	**£350k**	**Net value**	**£50k**

Forbes Dawson
THE TAX SPECIALISTS

Case study : David & Sheila

David and Sheila own a property worth £1.2m (£600k each). They wish to leave it eventually to their three adult children in equal shares. The total of their estate is £4.2m as below.

Assets	David £'000	Sheila £'000	Total £'000
House	600	600	1,200
Trading company shares	1,000	1,000	2,000
Investments	700	300	1,000
Total	2,300	1,900	4,200

Forbes Dawson
THE TAX SPECIALISTS

Sheila dies in 2022 – leaves everything to David

Assets	David £'000
House	1,200
Trading company shares	2,000
Investments	1,000
Total	**4,200**
Less David's NRB	(325)
Less transferred NRB	(325)
No RNRB (estate > £2.35m) * lose both Sheila and David's	NIL
Chargeable estate * exclude BPR	1,550
Tax payable	**620**

Forbes Dawson
THE TAX SPECIALISTS

Sheila dies in 2022 – Alternative will planning

Assets	David £'000	Sheila £'000
House	600	600
To children:		
Using RNRB on 1st death		**(175)**
Using NRB		**(325)**
Remainder to David	**100**	**(100)**
Trading company shares	1,000	1,000
Into Discretionary Will Trust		**(1,000)**
Investments	700	300
To David (spouse exemption)	**300**	**(300)**
Total	2,700	NIL

Forbes Dawson
THE TAX SPECIALISTS

Sheila's will – Sheila dies first in 2022

Effects of alternative planning

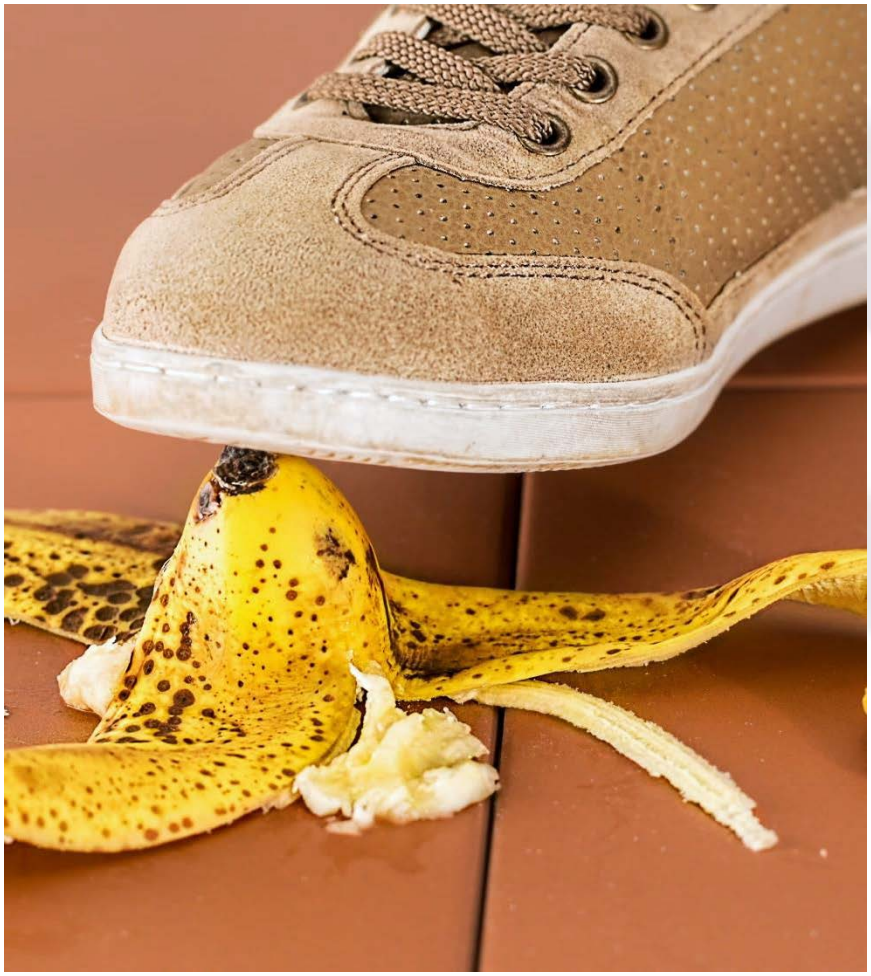
- David's estate increases by £400k only, compared to £1.9m without planning
- He retains assets from which he can derive and income – investments
- He lives in the house by virtue of his personal ownership

BENEFIT – does not unnecessarily increase David's estate so is closer to being able to attract RNRB on his death

Forbes Dawson
THE TAX SPECIALISTS

Effect on David

Assets	David £'000
House	700
Trading company shares	1,000
Investments	1,000
Total	2,700



David's estate is still > £2.35m so would be no RNRB relief at all.

Lifetime and maybe deathbed planning is essential

Lifetime planning for David

- David needs to reduce his estate for RNRB but which assets to use?
- Failed PETS are effective but consider conventional planning first
- Consider interaction of:
  - IHT exempt assets (BPR) no IHT but value restricts RNRB
  - Assets with inherent gains (want to hold until death – 20% CGT saving)
  - Impact of CGT on lifetime gifts
  - Limited with the house – reservation of benefit
  - Retain assets for income

David's lifetime planning

Retain trading company shares (£1m):

- Retains shares until death as attract 100% BPR
- Avoid BPR complications of donee having to retain
- Tax-free uplift for CGT on death (likely to be large gains)

Give investments away (up to £1m):

- Give away £325k of investments standing at a gain using trust – CGT deferral
- Consider giving away assets standing at £nil gain
- Retain £675k of investments, from which income derived

Total value of estate still £2.375m - no RNRB!

Forbes Dawson
THE TAX SPECIALISTS

Solution – David's deathbed planning

- Gift investments on deathbed
- Value drops out for RNRB calculation
- Receive income on investments up until death
- Reduce estate to < £2m so full RNRB available
- CGT liability on gift – 20%
- Saved IHT tax of £70k due to full RNRB available (£175k x 40%)

Forbes Dawson
THE TAX SPECIALISTS

Solution – David's deathbed planning

Assets	David £'000	Chargeable IHT £'000
House	700	700
Trading company shares	1,000	nil
Investments	1,000	1,000
Less lifetime into trust	(325)	(325)
Less deathbed planning	**(375) ***	**nil**
Retained investments	300	675
Total	**2,000**	**1,375**
Less RNRB	(175)	(175)
Less NRB	(325)	(325)
Chargeable estate		875
IHT		**350**

* Max liability 20% x £375k = £75k but likely to be a lot less

Summary

- The estate is valued differently to 'normal' IHT
- Careful will drafting is essential
- Return of the nil rate band discretionary will trusts to hold (flexibility and can read back appointments made within two years of death)
- Failed PETs can reduce the estate –keep assets until deathbed
- Careful if reserved a benefit – is in estate for RNRB
- Can transfer the relief but careful of value of spouse's estate
- Can transfer unused RNRB even if have no property!
- 2 x RNRB savings usually trump CGT on deathbed gifts (£140k) 40% v 20%

Forbes Dawson
THE TAX SPECIALISTS

Any questions?

Inheritance Tax Planning Opportunities – BPR investment

20 June 2016

Investec
Wealth & Investment

STEPHEN FIELD FPFS CFP^{CM} CFP Chartered MCSI
Chartered Financial Planner & Chartered Wealth Manager

Financial Planning Director

Business Property Relief

- BPR introduced in Finance Act 1976
- Widened - IHT Act 1984
- Since 1996, includes small, non-controlling shareholdings in qualifying businesses
- BPR is a statutory relief available on the value of any “relevant business property”
- Eligibility for BPR is only assessed by HMRC at the time of death
- Owned the relevant business property for 2 years prior to death

Relevant Business Property

- The types of asset that can benefit from BPR is limited, with the following broad areas available:
- Forestry and Farming
- Asset-backed (pubs, hotels, leisure clubs etc)
- Secondary PFI
- Secured lending (including lending on UK Residential Property Developments)
- Leasing and asset finance (including short term corporate and trade finance)
- Generalist Unquoted Equity
- Generalist “Mid and Small Cap” AIM Quoted Equity
- Generalist "Large-Cap" AIM Quoted Equity

AIM Portfolios

- June 1995 AIM launched
- Shareholdings in AIM companies are regarded as unlisted for (and only for) the purposes of business relief (IHTM18333)
- > 1000 stocks on the AIM
- Excludes companies which deal in securities, stocks or shares, land or buildings
- Investment Risk – small companies
- August 2013 – AIM shares became ISA eligible

AIM Portfolios cont'd

Which AIM stock would you choose?

- Secure and predictable revenue streams ?
- Strong margins ?
- Significant market share or strong reputation/brand ?
- Competition ?
- Asset backed ?
- Reasonable valuations ?
- Low levels of debt or cash positive ?

AIM Portfolios cont'd

- Traditional techniques of fundamental analysis and knowledge of the investee companies and the sectors they operate in are vital
- Tax risk (risks to qualifying status)
- Investment risk – specific and systematic
- Legislative risk

AIM Portfolio Managers

- Example - Discretionary AIM Portfolio Managers (as at Oct 15)
  - Investec Wealth & Investment, Octopus, City Asset Management, Stellar Asset Management, Charles Stanley, Amati, Brown Shipley, Puma, Downing, Close Brothers, Canaccord Genuity, Equilibrium Asset Management, Killik Asset Management, Midas, Smith & Williamson, Hargreaves Hale
- I will illustrate the Investec Wealth & Investment AIM IHT Planner

Investec Wealth & Investment AIM IHT Planner

Performance

	5 years to 31/03/16	4 years to 31/03/16	3 years to 31/03/16	2 years to 31/03/16	1 year to 31/03/16	3 months to 31/03/16
AIM Portfolio IHT Planner	99.4%	77.8%	59.6%	17.9%	16.9%	-3.3%
FTSE All Share (Total Return)	31.9%	30.1%	11.4%	2.4%	-3.9%	-0.4%
FTSE AIM ALL Share (Total Return)	-17.1%	-6.7%	0.7%	-14.3%	0.6%	-3.5%
FTSE Small Cap (Total Return)	81.3%	81.4%	41.7%	7.1%	5.9%	-0.6%

- Source: Datastream as at 31/03/16 and Investec Wealth & Investment. Remember that past performance is not a reliable guide to future returns and that previous periods of favourable performance will not necessarily to be repeated in the future

Other BPR Solutions

Examples

- Alternative Investments
  - Infrastructure – solar, secondary PFI smart- metering
  - Renewables – solar, brownfield wind, biomass, hydro, anaerobic digestion
- Fixed Interest
  - Leasing and asset finance
  - Secured Lending – against renewables, agricultural and property development asset finance
- Property
  - Asset Backed – pubs, hotels, real estate
- Media
- Mixed

Safeguarding

Available from a number of providers

- Insurance Policy
- Covering a percentage loss – can vary
- Typically maximum age applies – some require medical evidence
- Typically there is a maximum loss covered

Alternative BPR Investment Solutions

- General Key Investment Objectives Stated within prospectuses -
  - Capital Preservation
  - IHT Mitigation
  - Ongoing Access to funds
  - Steady Growth
  - Low Risk

Risk requires further qualification

Points to consider

Provider

- Investment Risk – BPR should still regarded as high risk schemes
- Liquidity – how long does it typically take to return funds to clients
- Experience in BPR investing
- Diversification
- Fees and charges

Enterprise Investment Schemes

- BPR qualifying
- Remember - 2 years only starts from when the shares are allotted
- Other tax benefits:-
  - Income tax Relief up to 30%
  - Capital Gains Tax Deferral

Financial Planning using BPR investments

- Inheritance planning for the elderly client?
- Investment diversity
- Complementary to trusts
- Transfer of BPR assets to a discretionary trust – IHT entry charge
- Replacement asset relief – business sale
- Residential Nil Rate Band – gifting of BPR investments
- Power of attorney
- Transferable ISA rules

Important Notes

- All statements within this letter concerning tax treatment are based upon our understanding of current tax law and HMRC practice
- Tax legislation is complex and the levels and bases of taxation, and relief thereof, are subject to change. Although we may be able to assist you in tax computations, and any such tax information provided by us is given in good faith, we would recommend that any tax advice is discussed with your accountant / tax specialist
- References to investment providers within this presentation are for illustrative purposes only and do not constitute a recommendation. Professional advice should be sought prior to implementation of anything discussed in this presentation

Contact Details

STEPHEN FIELD FPFS CFP^{CM} CFP Chartered MCSI
Chartered Financial Planner & Chartered Wealth Manager
Financial Planning Director
Telephone: +44 (0)7715 812428 Email: stephen.field@investecwin.co.uk

Bath	01225 341580	**Edinburgh**	0131 226 5000	**Liverpool**	0151 227 2030
Belfast	02890 321002	**Exeter**	01392 204404	**London**	020 7597 1234
Birmingham	0121 232 0700	**Glasgow**	0141 333 9323	**Manchester**	0161 832 6868
Bournemouth	01202 208100	**Guildford**	01483 304707	**Reigate**	01737 224223
Cheltenham	01242 514756	**Leeds**	0113 245 4488	**Sheffield**	0114 275 5100

Investec
Wealth & Investment

Forbes Dawson
THE TAX SPECIALISTS

Tax implications on divorce

Laura Hutchinson, Robin Charrot (Evolve Family Law) and Rebecca Bedford

20 June 2016

Forbes Dawson
THE TAX SPECIALISTS

Agenda

- General overview of the divorce arena
- A case study illustrating
  - The legal considerations
  - Tax issues arising when assets are divided between divorcing spouses
  - Consideration of the interaction between the legal and the tax issues

Forbes Dawson
THE TAX SPECIALISTS

Divorce – an update on the current position

- Divorce registrars?
- ‘Forced’ mediation and other non-court routes: Collaborative and Arbitration
- Fixed costs / costs budgeting coming in?
- Growing influence of nuptial agreements

Forbes Dawson
THE TAX SPECIALISTS

Divorce – an update on the current position

- Joint lives spousal maintenance receding
- 50:50 capital now hard to dislodge
- Main battleground now non-marital assets
- Working together with tax and forensic advisors / independent experts

Forbes Dawson
THE TAX SPECIALISTS

Case study – the entrepreneurs

H & W separated in November 2013 when H moved out of the home. No children

- H & W set up successful private limited company 50/50 (2000)
- PE came in 2011 and took *40% priority interest* – W no longer director or employed
- Potential buyer for the company
- Portuguese property (joint) - used in part by company for trade
- Matrimonial home (joint)
- H has some EIS shares

Forbes Dawson
THE TAX SPECIALISTS

Case study – current value and split of assets

Assets	Total £'000	Husband £'000	Wife £'000
Shares in ltd co. (30% each)	3,000	1,500	1,500
Portuguese property (used in business)	600	300	300
EIS shares	50	50	nil
Classic cars	250	250	nil
House	1,000	500	500
	4,900	2,600	2,300

Forbes Dawson
THE TAX SPECIALISTS

Case study objectives

- Overall H & W desire an equal split of value
- Due to the impending sale of the business, this is the easiest asset to use to equalise the estate
- W would prefer to retain the house, if possible
- The purchaser of the company is keen to buy the Portuguese property
- Consideration is required of the tax effects of other equalisation in case the sale falls through

Forbes Dawson
THE TAX SPECIALISTS

Case study – proposed split of assets (pre-tax)

Assets	Total £'000	Husband £'000	Wife £'000
Cash on sale of company shares	3,000	1,850	1,150
Cash on sale of Portuguese property	600	300	300
EIS shares	50	50	nil
Classic cars	250	250	nil
House	1,000	nil	1,000
	4,900	2,450	2,450

Forbes Dawson
THE TAX SPECIALISTS

General tax issues

- Later than year of separation so loss of 'nil gain, nil loss' transfers for CGT
- Deemed market value disposals
- Holdover relief: business assets/chargeable transfer with court orders
- IHT – spouse exemption until decree absolute
- No transfer of value – court order
- Timing of disposals – date of transfer, court order or decree absolute?

Forbes Dawson
THE TAX SPECIALISTS

Case study – legal issues

- Interim financial support
- Case funding
- Asset split anything other than 50:50? Post-separation changes in value
- Spousal maintenance: Until sale of company or beyond?
- Identifying asset values. Experts or finding own value?
- Local or overseas expert? How to choose
- Which route to resolution?
- How long will it take to sort?

Forbes Dawson
THE TAX SPECIALISTS

Case study– tax issues

- W owns 30% of co but not officer – no ER
- Portuguese property linked to business – loss of associated disposal relief under ER if W retains
- Portuguese tax issues
- PPR ending – extension?
- EIS – withdrawal of relief?

Forbes Dawson
THE TAX SPECIALISTS

Case study – tax solutions

Plan for ER on imminent sale of shares

- W no ER on her shares – not an officer – 20% CGT
- W transfer shares to H immediately prior to sale using holdover relief – s165 (court order, no consideration)
- H attracts ER (10%) on all shares as held > 5% for > 1 year
- Careful with deemed date of disposal – if transfer under court order then date of transfer is court order or decree absolute, if later. Need H to have shares to attract ER at date of sale.

Forbes Dawson
THE TAX SPECIALISTS

Case study – tax solutions

Portuguese property

- Consider sale with business – associated disposal ER (in use in business for > 1 year)
- Transfer property prior to sale – H makes material disposal of shares – 10% on part of gain
- Gift holdover again? Court order
- Understand Portuguese tax issues, what rate?

Forbes Dawson
THE TAX SPECIALISTS

Case study – tax solutions

PPR

- Usually PPR 18m from date moves out – past that date in May 15

Extended if:

- House transferred under court order and
- W occupies as main residence
- H has not elected for another property

- On transfer H can reclaim 3% additional SDLT paid on second property

Forbes Dawson
THE TAX SPECIALISTS

Case study – tax solutions

EIS shares

- H owned for less than 3 years
- Claimed income tax relief and CGT deferral

Income tax relief

- Withdrawal of income tax relief on disposals/transfers within first 3 years, except
- Transfer to W *who is living* with H (note does not apply in year of separation if have moved out)
- Withdrawal of income tax relief means no capital gain exemption

Forbes Dawson
THE TAX SPECIALISTS

Case study – tax solutions

EIS – CGT deferral relief

- CGT deferral relief no clawback if in year of separation

Advice – do not transfer the EIS shares as the transfer would take place after moving out and after the year of separation:

- The income tax relief claimed by H will be withdrawn
- The deferred gain will become chargeable
- The shares would lose their exempt EIS CGT status

Forbes Dawson
THE TAX SPECIALISTS

Case study - alternative advice

- What if sale falls through?
  - Can we achieve a 50:50 asset split without accessing the company? H takes co and W gets copper bottomed assets - less than 50%
  - Large and uncertain value in the company if no sale – difficult
  - Payments to wife by company: Raising finance / from cash reserves
  - Risk profile of other assets
  - Consider inherent tax liabilities and tax rates
  - Wait for a later sale?

Forbes Dawson
THE TAX SPECIALISTS

Case study – current value and split of assets

Assets	Total £'000	Husband £'000	Wife £'000
Shares in ltd co. (30% each)	3,000	1,500	1,500
Portuguese property (used in business)	600	300	300
EIS shares	50	50	nil
Classic cars	250	250	nil
House	1,000	500	500
	4,900	2,600	2,300

Forbes Dawson
THE TAX SPECIALISTS

Case study - alternative advice

- Trading company
  - W retains company shares
  - Can W be appointed as company secretary/employee of trading co for ER for 12m?
  - Company buy-back later? – 10%/20%. Satisfy 5 years test, commercial?
  - Court order – any later 3rd party sale W transfers shares to H again – 10%

Forbes Dawson
THE TAX SPECIALISTS

Case study – alternative advice

- Portuguese property
  - H retain Portuguese property as used in business?
- Classic cars
  - Court directs sale of cars to provide interim funds for W
  - No capital gains tax (wasting asset)

Forbes Dawson
THE TAX SPECIALISTS

Case study – possible equalisation of assets

Assets	Total £'000	Husband £'000	Wife £'000
Shares in ltd co. until sale/buy back	3,000	1,800	1,200
Portuguese property (used in business)	600	600	nil
EIS shares	50	50	nil
Cash on sale of classic cars	250	0	250
House	1,000	nil	1,000
	4,900	2,450	2,450

Forbes Dawson
THE TAX SPECIALISTS

Summary

- The earlier we are approached, the better
- Better tax position if commercial, tax and legal aspects all looked at in tandem *at a very early stage (pre-proceedings)*
- Can work as single joint experts or act for one side
- No 'one size fits all' solution
- Ensure your client instructs a lawyer who will be:
  - Prepared to look at non-court routes to resolution
  - Personally running the case
  - Cost effective
- Spot the need for a prenup or postnup. It can be pushed by the company

Technical Services

Brian Radbone
Head of Technical Services

transact
take control

Topic for today

Pensions – Where we are now and where are we going?

Pensions

The £50 billion tax relief hole

- Tax relief and N.I.
- 2/3rds higher and additional rate taxpayers
- Pensioner receipts only c£13 billion

Action to date to ‘fill in” hole

- On the way in
  - Input disincentives
- On the way out
  - Benefit restrictions

Where we are now – Pension Input?

- £40,000 Annual Allowance except:-
  - Money Purchase Annual Allowance (MPAA)
  - Tapered Annual Allowance

transact
take control

Where we are now – Pension Input?

MPAA (from 6 April 2015)

- £10,000 annual input limit if income is taken under flexible access rules
- Alternative allowance of up to £30,000 iro final salary benefits
- No carry forward of unused MPAA
- Not triggered if only PCLS taken initially under flexible access rules or income still taken from existing capped drawdown plan

transact
take control

Where are we now – Pension Input?

Tapered Annual Allowance (from 6 April 2016)

- Only applies when 'Threshold Income' is greater than £110,000 and 'Adjusted Income' is greater than £150,000
  - No need to calculate 'Adjusted Income' if 'Threshold Income' not greater than £110,000
- If taper applies, Annual Allowance reduces by £1 for every £2 of income above £150,000 adjusted income
- Tapering cannot reduce Annual Allowance below £10,000
  - Reached when Adjusted Income reaches £210,000

transact
take control

Where are we now – Pension Input?

Threshold Income Limit £110,000

Includes:

- All income subject to income tax (earnings, savings income, dividends, rental income, benefits in kind)

less

- Member pension contributions deducted under relief at source
- Lump sum death benefits subject to income tax

plus

- Income sacrificed for pension provision (ie salary sacrifice arrangements entered into since 9th July 2015)

transact
take control

Where are we now – Pension Input?

Adjusted Income Limit £150,000

Includes:

- All income subject to income tax (earnings, savings income, dividends, rental income, benefits in kind)

plus

- The value of any employer pension contributions

plus

- Employee contributions subject to net pay arrangement

plus

- Excess relief

less

- Any pension lump sum death benefit that have been subject to income tax

transact
take control

Where are we now – Pension Input?

Maximum Carry Forward Amounts

Tax Year 2012/13	Tax Year 2013/14	Tax Year 2014/15	Pre Alignment Period	Post Alignment Period	Tax Year 2016/17	Tax Year 2017/18	Tax Year 2018/19	Tax Year 2019/20	Maximum Available	Maximum Available*
£50,000	£50,000	£40,000	£80,000	£0					£220,000	
	£50,000	£40,000	£40,000	£0	£40,000				£170,000	
					£10,000					£140,000
		£40,000	£40,000	£0	£40,000	£40,000			£160,000	
					£10,000	£10,000				£100,000
			£40,000	£0	£40,000	£40,000	£40,000		£160,000	
					£10,000	£10,000	£10,000			£70,000
					£40,000	£40,000	£40,000	£40,000	£160,000	
					£10,000	£10,000	£10,000	£10,000		£40,000

* for individuals whose income exceeds £210,000

Where are we now – Pension Benefits?

From April 2015:

- Any amount can be taken from a DC pot once a client attains age 55 (in most cases)
- Typically 25% tax-free
- 75% taxed at marginal rate
- Can use FAD or UFPLS if available
- Beware the £10,000 MPAA

transact
take control

Lump sum options

Flexi-Access Drawdown (FAD)

- Can just take tax-free entitlement under FAD
  - If first withdrawal and no income drawn down then £40,000 AA kept

- Remaining fund can be drawn at any time
  - Any withdrawal taxed at marginal rate
  - £10,000 MPAA when taxable income first drawn

transact
take control

Lump sum options

UFPLS

- Take lump sum directly from accumulation ‘pot’ under UFPLS
- Each lump sum must be 25% tax-free and 75% taxable
  - No tax-free only option
  - Enhanced PCLS not allowed under UFPLS
  - MPAA triggered

Beware – Withdrawal tax traps

- Current year P45 required for correct tax to be deducted otherwise emergency tax must be applied assuming the payment is monthly
- Providers cannot use other tax codes issued elsewhere
- HMRC will rectify any overpayments within 30 days of being told – new forms available for reclaim
- Taking a smaller initial payment would enable subsequent payments to be taxed using the right code

transact
take control

Emergency tax example

- £100,000 lump sum withdrawn
- 25% tax free
- Tax payable on £75,000 = £19,403
- Actual tax deducted
  - Using 1060L emergency code = £32,197
- Tax to be reclaimed = £12,794
- Revenue forms P50Z, P53Z and P55

transact
take control

Beware – Withdrawal tax traps

- Personal Allowance is reduced where adjusted net income (ANI) exceeds £100,000
- ANI = total taxable income less certain allowances (eg, pension contributions, Gift Aid donations)
- Large withdrawals could lead to reduction/loss of PA

Loss of Personal Allowance - Example

Salary £50,000; Withdraw pension fund of £100,000

- £25,000 of pension fund tax-free, £75,000 added to salary to give total taxable income of £125,000
- £10,600 Personal Allowance lost as income > £121,200
- Effective tax rate of 60% on income between £100,000 and £121,200
- Spreading withdrawal over a number of years will mean only 40% tax payable

transact
take control

The Lifetime Allowance (LTA)

- £1m since 6 April 2016
- Increase in line with CPI from April 2018
- Fixed protection 2016, Individual Protection 2016 and Individual Protection 2014 available
- HMRC has confirmed that FP2016 does not have to be in place by 6 April 2016 (benefit accrual must cease though)

transact
take control

LTA – BCEs to note

Lifetime Allowance - BCE 5b and new 5c

- BCE 5b
- Occurs on drawdown funds at age 75
- Automatically applied at 25%
- No options for a lifetime allowance lump sum

- BCE 5c
- Arises on death on uncrystallised funds
- Client age under 75
- When funds are designated into dependant's or nominee's FAD
- Designation within two years of death
- Liability of recipient
- Mirrors BCE7 for lump sum death benefits

transact
take control

Death Benefit options under the New Rules

Daily Telegraph

Death Benefits in the form of Pensions

From April 2015:

- Anyone can be nominated to receive pension death benefits as a flexi-access drawdown pension
- No longer just dependants who can receive a pension
- Tax treatment of pension depends on age on death of the latest owner of the pension fund
  - < 75 tax-free (within 2 years); > 75 recipient's marginal rate
- Each recipient can in turn nominate who should receive the fund on their death

transact
take control

Death Benefits in the Lump Sums

From April 2015:

- Anyone can be nominated to receive a lump sum
- Tax treatment of pension depends on age on death of the latest owner of the pension fund
  - < 75 tax-free (within 2 years)
  - > 75 at recipient's marginal rate
- Funds leave the tax-advantaged pension environment

transact
take control

Paying Death Benefits to a Trust

Are trusts still an option now that pension benefits can remain within the pension regime?

- **Control**
  - Trustees can determine when certain parties receive benefit
    - In case funds are “misused”
  - Ensure intended recipients receive benefits
    - Remarriage may change who receives benefits

- **Tax**
  - Payments to trust typically tax-free where deceased under 75 otherwise 45% deducted
  - Funds no longer in tax advantaged pension regime
  - Ongoing IHT charges and administration

transact
take control

Client wishes

- Any instruction by the member must not be binding
  - IHT implications on death for the member if the scheme is bound by the instruction
- Expression of wishes should be provided to the scheme administrator as a guide
  - Administrator may be restricted as to who can receive a pension
- Administrator exercises discretion over how (ie, lump sum or FAD pension) and to whom the death benefit is paid
- Regular review of expression of wishes is key
  - Changing personal circumstances
  - Future rule changes
  - Ensure administrator/trustees have up to date detail

transact
take control

Final salary schemes

- Death benefit lump sums taxed as per DC schemes but pensions always taxed at recipient's marginal rate
- No death lump sum if member dies in retirement
- Transfer to DC scheme required to access full flexibility (scheme must be funded and advice given if > £30,000)
  - Eg: Widowed member where scheme will pay pension with 5 year guarantee only

transact
take control

Annuities

- Full death benefit flexibilities available
  - Joint-life and guaranteed annuities paid out to any beneficiary (tax treatment pre and post 75 as for DC pension)
  - Protected lump sum as per DC pension lump sums
  - No maximum guarantee period (formerly 10 years)

Life Cover

- **Group Death-in-Service**
  - Registered scheme – benefits usually tax-free but count towards LTA so could be a tax charge
  - Joining a scheme means fixed or enhanced protection will be lost

- **Relevant Life Policies**
  - Not a registered pension scheme – no LTA impact
  - Employer paid with corporation tax relief if it satisfies “wholly and exclusively” rule
  - Not treated as benefit in kind on the employee
  - May be periodic and exit charges
    - Eg: Death shortly before periodic charge date

transact
take control

Pension Death Benefit Tax

Taxation of pension death benefits since April 2016

Pension - Tax on Death Benefits				
	Lump Sum Route		Drawdown Route	
	Tax Charge	BCE	Tax charge	BCE
Death pre 75				
Uncrystallised#	No	Yes (7)	No	Yes (5c)
Crystallised	No	No	No	No
Death post 75	Marginal rate	No	Marginal rate	N/A

assumes that benefits were settled within 2 year

transact
take control

Pensions – being squeezed from both sides

- Generous benefit structure
- Limited input
- “Capped” benefit limit – taxed on surplus

What further pension reform may look like

Contribution tax relief

- No change
  - Unlikely – Treasury savings required
- EET to TEE with Govt top-up
  - PISA – pension 'leaning towards' an ISA
  - Wait for tax benefit and threat of further rule changes
- Single flat rate of tax relief
  - Easier to understand
  - Maintain up front incentive

transact
take control

Where are we heading?

- Single tax advantaged plan?
  - Eg:- Lifetime ISA
- End of pensions as we know them?
  - What about DB (including Public Sector) and AE?
- Wrapper boundaries already blurred in the holistic planning world
- The State Pension – for how long?
  - Improving life expectancy – not for everyone

transact
take control

To the New World

To the New World – where quality advice is essential

transact
take control

Disclaimer

Thank you for your attention

Transact Technical Support
E-mail – technical_direct@integrafin.co.uk
Direct dial 020 7608 5330

transact
take control

Forbes Dawson
THE TAX SPECIALISTS

Thank you for listening

More information available:

www.forbesdawson.co.uk

Twitter @forbesdawson